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**BEFORE THE ARIZONA CORPORATION COMMISSION**

WILLIAM A. MUNDELL

Chairman

JIM IRVIN

Commissioner

MARC SPITZER

Commissioner

FEB 16 A 11:59

AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION  
OF RIO VERDE UTILITIES, INC. FOR  
AN INCREASE IN ITS WATER AND  
WASTEWATER RATES FOR CUSTOMERS  
WITHIN MARICOPA COUNTY, ARIZONA.

DOCKET NO. WS-02156A-00-0321

IN THE MATTER OF THE APPLICATION  
OF RIO VERDE UTILITIES, INC. FOR  
AUTHORITY TO ISSUE PROMISSORY  
NOTE(S) AND OTHER EVIDENCES OF  
INDEBTEDNESS PAYABLE AT PERIODS OF  
MORE THAN TWELVE MONTHS AFTER  
THE DATE OF ISSUANCE.

DOCKET NO. WS-02156A-00-0323

**STAFF'S NOTICE OF FILING SUMMARIES**

Staff of the Arizona Corporation Commission hereby files the Summaries of  
Testimony of Ronald E. Ludders, Rodney L. Moore, John A. Chelus, and William A. Rigsby, in the  
above-referenced matters.

RESPECTFULLY SUBMITTED this 16<sup>th</sup> day of February, 2001.

Arizona Corporation Commission

**DOCKETED**

FEB 16 2001

DOCKETED BY

Teena Wolfe  
Attorney, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
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The original and fifteen copies of the  
foregoing were filed this 16<sup>th</sup> day of  
February, 2001, with:

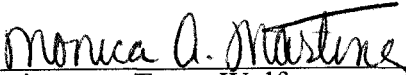
Docket Control  
Arizona Corporation Commission  
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1 Copies of the foregoing were mailed the  
2 16<sup>th</sup> day of February, 2001, to:

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**SUMMARY OF DIRECT TESTIMONY  
OF RONALD E. LUDDERS  
RIO VERDE UTILITIES, INC.  
DOCKET NO. WS-02156A-00-0321**

Rio Verde Utilities, Inc. – Water Division (“Company” or “Rio Verde Water”) is an Arizona “C” corporation that services a developed community located ten miles north of the community of Fountain Hills, adjacent to McDowell Mountain Range Park. Rio Verde Utilities, Inc. is a combined water and wastewater utility that provided service to approximately 1,247 water customers as of December 31, 1999. Approximately 98 percent of these customers were residential and located in the Rio Verde and Tonto Verde subdivisions.

On May 11, 2000, Rio Verde’s Water Division filed an application for approval of a permanent rate increase with the Commission. The application was subsequently docketed on June 9, 2000. Rio Verde Wastewater’s current rates and charges were established by Decision No. 58525, dated February 2, 1994. The application contained a requested increase for both the Water and Wastewater rates.

The Company’s Test Year adjusted income statement contains adjusted total operating revenue of \$949,205 for the Water Division. Therefore, the adjusted current rate of return is 4.57 percent. In this proceeding, the Company has requested a rate of return of 11.45 percent on an adjusted Original Cost Rate Base (“OCRB”) of \$4,248,575. Therefore, the Company’s requested operating income is \$486,388.

Staff’s proposed overall rate of return is 10.65 percent. Staff’s adjusted OCRB is \$4,104,475. Therefore, Staff’s recommended operating income is \$437,126. Staff’s analysis consisted of determining the Company’s cash requirements based on Staff’s adjustments to rate base and operating expenses. This rate increase will also generate a positive cash flow of approximately \$591,284 after expenses for operation and maintenance.

Staff adjusted the Company’s Test Year revenue by reclassifying the hook-up fees as a contribution in aid of construction (“CIAC”). Staff is against continuing to use hook-up fees as revenue. Staff also recommends increasing the hook-up fees by \$500, from \$500 to \$1,000 per

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1 hook-up. All money collected from hook-up fees should be used as contributions to pay for  
2 backbone plant.

3 Staff proposed an increase in the monthly usage charge for  $\frac{3}{4}$ -and 1-inch metered customers  
4 of \$3.00, from \$7.00 to \$10.00. The Company proposed that the gallons included in the minimum  
5 be decreased for all classes of customers from 1,000 gallons to zero gallons. In the interest of  
6 conservation, Staff agrees with this position. Costs should be related to usage as much as possible.  
7 The Company requested a commodity charge increase of \$1.03, from \$1.28 to \$2.31. Staff  
8 recommended an increase the commodity charge of \$.67 per 1,000 gallons, from \$1.28 to \$1.95.  
9 Under Company proposed rates, the typical residential bill, having a median usage of 8,740 gallons,  
10 would increase by \$13.24, from \$16.95 to \$30.19, for an increase of 78.2 percent. At Staff's  
11 proposed rates, the typical monthly bill would increase by \$10.10, from \$16.95 to \$27.04 per month,  
12 for an increase of 59.6 percent.

13 The Company does not propose any changes to the other service charges as authorized by  
14 Decision No. 58525. Staff proposes increasing the charge for a NSF check be increased by \$15.00,  
15 from \$10.00 to \$25.00 to bring the fee in line with industry standards. Staff, also proposes an  
16 increase in the hook-up fees from \$500 to \$1,000 with money to be considered as CIAC.

**SUMMARY OF DIRECT TESTIMONY  
OF RODNEY L. MOORE  
RIO VERDE UTILITIES, INC.  
DOCKET NO. WS-02156A-00-0321**

Rio Verde Utilities, Inc. – Wastewater Division (“Company” or “Rio Verde Wastewater”) is an Arizona “C” corporation that services a developed community located ten miles north of the community of Fountain Hills, adjacent to McDowell Mountain Range Park. Rio Verde Utilities, Inc., is a combined water and wastewater utility that provided service to 1,193 customers as of December 31, 1999. Approximately 98 percent of these customers were residential and located in the Rio Verde and Tonto Verde subdivisions.

On May 11, 2000, Rio Verde Wastewater filed an application for approval of a permanent rate increase with the Commission. The application was subsequently docketed on June 9, 2000. Rio Verde Wastewater’s current rates and charges were established by Decision No. 58525, dated February 2, 1994. The application contained a requested increase for both the Water and Wastewater rates.

The Company’s Test Year adjusted income statement reflects adjusted total operating revenue of \$611,278 for the Wastewater Division resulting in a rate of return of 6.18 percent. In this proceeding, the Company has requested a rate of return of 10.56 percent on an adjusted Original Cost Rate Base (“OCRB”) of \$2,967,530 for an operating income of \$313,340.

Staff’s proposed overall rate of return is 9.67 percent. Staff’s adjusted OCRB is \$2,760,524. resulting in a recommended operating income of \$266,942. Staff’s analysis consisted of determining the Company’s cash requirements based on Staff’s adjustments to rate base and operating expenses. It would also generate a positive cash flow of approximately \$343,831 after expenses for operation and maintenance.

Staff recommends against the continuation of accounting for hook-up fees as revenue. Staff also recommends increasing the fees from \$1,000 to \$1,500 per hook-up. All money collected from hook-up fees should be accounted for as contributions to pay for backbone plant.

The basic residential sewer service class is currently charged a monthly flat rate of \$34.00 per month. The Company is proposing an increase to \$46.42 per month, for an increase of \$12.42

1 or 36.52 percent. Staff proposes the monthly flat rate be increased to \$50.30 per month, for an  
2 increase of \$16.30 or 47.94 percent.

3 Commercial sewer service class is currently charged a monthly flat rate of \$75.00 per month.  
4 The Company and Staff are proposing an increase to \$150.00 per month, for an increase of \$75.00  
5 or 100.00 percent.

6 Commercial - Restaurant sewer service class will be a new classification, but is currently  
7 charged a monthly flat rate of \$75.00 per month. The Company and Staff are proposing an increase  
8 to \$200.00 per month, for an increase of \$125.00 or 166.67 percent.

9 Effluent Sales are currently charged a commodity rate of \$0.88 per 1,000 gallons. The  
10 Company and Staff are proposing an increase to \$1.17 per 1,000 gallons, for an increase of \$0.29  
11 or 32.95 percent.

12 The Company does not propose any changes to the other service charges as authorized by  
13 Decision No. 58525. Staff proposes increasing the charge for a NSF check from \$10.00 to \$25.00  
14 to bring the fee in line with industry standards. Staff also proposes an increase in the hook-up fees  
15 from \$1,000 to \$1,500 with money to be considered as CIAC.  
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**SUMMARY OF DIRECT TESTIMONY  
OF JOHN A. CHELUS  
RIO VERDE UTILITIES, INC.  
DOCKET NO. WS-02156A-00-0321**

**Rio Verde Utilities – Water**

1. The Company is in compliance with ADEQ and Maricopa County regulations. Maricopa County has determined that this system is currently delivering water that does not exceed any MCL (maximum contaminant level) and meets the Safe Drinking Water Act quality requirements.
2. The Company is in good standing with ADWR and has met all their requirements.
3. The Company reported water testing costs of \$2,003 for on-site lab testing and \$7,134 for outside lab testing for the water division. Engineering considers these costs reasonable.
4. Engineering recommends not recording hook-up fees as revenue. All money collected from hook-up fees should be used as contributions to pay for backbone plant such as wells, storage tanks, pressure tanks and booster pumps and not to subsidize current customers' monthly water bills. Engineering recommends that the hook-up fee for water service be raised to \$1,000 from \$500 per connection and that all hook-up fee monies be recorded as contribution to plant.
5. Engineering found all wells, storage tanks, booster pumps, pressure tanks and other related water plant to be used and useful. According to the Company, any distribution mains, which have been built, that are not serving customers are contributed plant and therefore netted out of rate base. The Company supplied Staff, through a data request, with a list of plant items that have been retired since the last rate increase, which were accounted for by Accounting Staff in the final rate base total.
6. The Company is proposing higher meter and service line installation charges as shown in Company application Schedule H-3. Engineering considers these charges reasonable and recommends approval.

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1 **Rio Verde Utilities – Wastewater**

- 2 1. The Company is in compliance with ADEQ and Maricopa County regulations. Maricopa  
3 County inspected the facilities on August 15, 2000 and found no deficiencies.
- 4 2. Engineering found all wastewater treatment facilities and other related wastewater plant to  
5 be used and useful. The Company reduced its plant in service for the wastewater facilities  
6 by \$1,290,350 from \$3,686,714 to \$2,396,364 or 35% due to excess capacity. Engineering  
agrees with this adjustment.
- 7 3. According to the Company, any collection mains, which have been built, that are not serving  
8 customers are contributed plant and therefore netted out of rate base. The Company supplied  
9 Staff, through a data request, with a list of plant items that have been retired since the last  
10 rate increase, which should be accounted for in the final rate base total. Additionally, the  
Company identified an effluent line, which is installed but not in use at the present time.  
11 This line serves one of the Tonto Verde Lakes on the Ranch Course. The estimated value  
is \$30,000. An adjustment was made to rate base by Accounting Staff.
- 12 4. The Company reported wastewater testing costs of \$5,670 for on-site lab testing and \$828  
13 for outside lab testing for the wastewater division during the 1999 test year. Engineering  
considers these costs reasonable.
- 14 5. Engineering recommends not recording hook-up fee monies as revenue. All money collected  
15 from hook-up fees should be used as contributions to pay for backbone plant such as  
16 wastewater treatment plant equipment, lift stations, sludge disposal equipment and effluent  
pumping equipment and not to subsidize current customers' monthly wastewater bills.  
17 Engineering recommends that the hook-up fee for wastewater service be raised to \$1,500  
from \$1,000 per connection and that all hook-up fee revenue be recorded as contribution to  
18 plant.
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**SUMMARY OF DIRECT TESTIMONY  
OF WILLIAM A. RIGSBY  
RIO VERDE UTILITIES, INC.  
DOCKET NO. WS-02156A-00-0321**

Rio Verde Utilities, Inc. ("Company" or "Rio Verde") is an Arizona "C" corporation that provides water and wastewater services to a developed community located ten miles north of the community of Fountain Hills, adjacent to McDowell Mountain Range Park. The Company's water and wastewater divisions provided service to 1,193 customers as of December 31, 1999. Approximately 98 percent of these customers were residential and located in the Rio Verde and Tonto Verde subdivisions.

On May 11, 2000, Rio Verde filed applications with the Arizona Corporation Commission for approval of long-term debt ("Financing Application") and for approval of a permanent rate increase ("Rate Application") for both the Company's water and wastewater divisions.

Rio Verde is requesting the approval of a \$2,469,787 loan from CoBank to finance the majority of \$1,290,389 in new additions for Rio Verde's water division and \$1,179,787 in new additions to the Company's wastewater division. Rio Verde plans to file a copy of the loan agreement with CoBank as a late filed (post hearing) exhibit. Staff is recommending that any decision on this request be delayed until Staff has the opportunity to review the terms of the loan agreement with CoBank. Staff took this position because it did not believe it was appropriate to set rates using only Rio Verde's estimates of the possible terms of the Company-proposed loan.

Staff's recommended rate of return for Rio Verde's water division is 10.65 percent and 9.67 percent for the Company's wastewater division. The Company-proposed rates of return are 11.45 percent and 10.56 percent respectively. Staff removed all Company-proposed proforma adjustments related to the aforementioned Company-proposed long-term debt in determining its recommended capital structure and its recommended cost of long-term debt.

Staff's recommended cost of capital for both the water and wastewater divisions were determined by conducting an analysis that utilized the discounted cash flow ("DCF"), capital asset pricing model ("CAPM"), and comparable earnings methodologies.